

# South Hams Audit and Governance Committee



<b>Title:</b>	<b>Agenda</b>						
<b>Date:</b>	<b>Thursday, 30th June, 2022</b>						
<b>Time:</b>	<b>2.00 pm</b>						
<b>Venue:</b>	<b>Council Chamber - Follaton House</b>						
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Austen</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Spencer</p> <p><i>Members:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Cllr Brazil</td> <td style="width: 33%;">Cllr Rowe</td> </tr> <tr> <td>Cllr McKay</td> <td>Cllr Taylor</td> </tr> <tr> <td>Cllr Pennington</td> <td></td> </tr> </table>	Cllr Brazil	Cllr Rowe	Cllr McKay	Cllr Taylor	Cllr Pennington	
Cllr Brazil	Cllr Rowe						
Cllr McKay	Cllr Taylor						
Cllr Pennington							
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.						
<b>Committee administrator:</b>	Democratic.Services@swdevon.gov.uk						

<b>1. Minutes</b>	<b>1 - 6</b>
To approve as a correct record the minutes of the Audit Committee held on 10 March 2022;	
<b>2. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>3. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>4. Declarations of Interest</b>	
In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;	
<b>5. Grant Thornton - Audit Plan for 2021-22</b>	<b>7 - 26</b>
<b>6. Grant Thornton - Guidance for reviewing the Accounts</b>	<b>27 - 48</b>
<b>7. Grant Thornton - Informing the Audit Risk Assessment for 2021-22</b>	<b>49 - 78</b>
<b>8. Internal Audit Annual Report 2021-22</b>	<b>79 - 106</b>

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD IN THE REPTON ROOM, FOLLATON HOUSE, PLYMOUTH ROAD,  
TOTNES ON THURSDAY, 10<sup>th</sup> MARCH 2022**

<b>Members in attendance</b> * Denotes attendance ∅ Denotes apology for absence			
*	Cllr L Austen (Chairman)	*	Cllr R Rowe
*	Cllr J Brazil	*	Cllr B Spencer (Vice-Chairman)
*	Cllr J McKay (via Teams in a non-voting capacity)	*	Cllr B Taylor
*	Cllr J T Pennington		

<b>Member(s) also in attendance:</b>
Cllrs N Hopwood (via Teams); J McKay (via Teams); and J Pearce

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Director of Place and Enterprise (via Teams); Section 151 Officer; Head of Finance; Democratic Services Manager (via Teams); Head of Strategy & Projects (via Teams); Audit Manager; Audit Specialist (via Teams); External Auditor; External Auditor (via Teams); Democratic Services Specialist; IT Specialist.
5.	A.31/21	Chief Executive (via Teams);

**A.29/21 MINUTES**

The minutes of the Audit Committee meeting held on 9 December 2021 were confirmed as a true and correct record.

**A.30/21 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

**A.31/21 PENSIONS PRESENTATION BY DEVON COUNTY COUNCIL**

A presentation was given to the Committee and Members on the current situation of the Council's Pension Fund. The presentation was given by Mark Gayler, Investment Manager at Devon County Council (DCC).

The presentation included updates in investments in petroleum companies, which had been reduced in recent years in line with Councils declaring a Climate Change Emergency. Members were also

appraised of investments in the Russian stock market, following the recent invasion of Ukraine.

The recently released Levelling-Up White Paper, from Central Government, had suggested that local government pension schemes were to set out plans to invest 5% of their funds in local investments. This had subsequently been clarified to explain that 'local' in this context referred to investments within the United Kingdom.

As the District Council's representative on the Investment and Pension Fund Committee, the Leader stated that it was her belief that the pension scheme was very well run under difficult circumstances. The Chairman thanked Mr Gayler for his informative presentation.

A.32/21

### **GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Consideration was given to a report that updated Members on progress made by the Council's external auditors, Grant Thornton, including that the Housing Benefit Subsidy Claim had been submitted to the Department of Work and Pensions before the deadline in February 2022.

The Auditors Report on the Audited Accounts was due to be completed by the end of November 2022.

Following a question from a Member of the Committee, it was agreed that the external auditors would run a training session for all Members on scrutinising the draft accounts. This event would be held remotely and scheduled to occur before the Draft accounts were presented to the Audit Committee.

Further to a query regarding Grant Thornton's own actions towards Climate Change and Biodiversity, it was confirmed that more meetings and preparatory work were held remotely which cut down on emissions and enabled better use of working time. The External Auditor committed to sending round a fuller list of Grant Thornton's Key Actions on the issue.

The Chairman thanked the Grant Thornton Auditors for attending the meeting.

It was then:

#### **RESOLVED**

That the progress made against the 2021/22 external audit report, and any key issues arising, be noted and approved.

A.33/21

### **2022/23 INTERNAL AUDIT PLAN**

The Committee was apprised of the proposed Internal Audit Plan for 2022/23. Although it was anticipated that the Covid Pandemic could still impact on the available workdays, the plan had been developed based on the standard 430 work days.

Following questions from Members of the Committee, it was confirmed that:

- It remained a statutory requirement for the Local Enterprise Action Fund and Local Action Group Grants to be subject to audit as part of the process of delivery
- The Salcombe Harbour Authority and Dartmouth Lower Ferry were audited annually but each year focussed on a different area of their operation to give the Council assurance on satellite areas.

It was then:

### **RESOLVED**

- 1) That the report be approved; and
- 2) That the proposed Internal Audit Plan for 2022/23, as at Appendix A of the attendant report, be approved.

A.34/21

### **UPDATE ON PROGRESS ON THE 2021/22 INTERNAL AUDIT PLAN**

Consideration was given to a report that updated Members on progress made against the Internal Audit Plan. It was highlighted that internal audits had been impacted by the Covid pandemic, with one team member continuing to work on the administration of grants related to mitigating the impact of Covid. Eleven other audits were outstanding but in progress with draft reports ready for officer comment. There were a small number of audits still to commence. A review of the audit plan had been undertaken to discuss which audits could go ahead or be postponed.

Further to a question from Members, it was confirmed that there was limited assurance given to the report on performance management and, for this reason, it had been re-added to this year's plan. However, the internal auditor was confident that progress was being made. The Leader confirmed that a report was due to go before the Executive in the next two months.

The officer agreed to add in timescales in future reports.

It was then:

### **RESOLVED**

That the progress made against the 2021/22 internal audit plan, and any key issues arising, be noted and approved.

A.35/21 **2022/23 CAPITAL STRATEGY, 2022/23 TREASURY MANAGEMENT STRATEGY, and 2022/23 INVESTMENT STRATEGY**

Members of the Committee reviewed the report that outlined the proposed Capital Strategy, Treasury Management Strategy, and the Investment Strategy for the 2022/23 financial year.

During discussions the following points were made:

- The Investment Strategy had been approved by Full Council with the Senior Leadership Team's role outlined as identifying potential investment opportunities and bringing these to Members' attention for their review. It was also open for Members to bring any potential opportunities to the Executive.
- The Lybridge Regeneration project was going through RIBA stages and it was hoped that it would be brought before the Council's Development Management Committee in June 2022. The Section 151 Officer confirmed that a further report on Lybridge Regeneration will be presented to Full Council, prior to planning and prior to the project moving to the delivery phase.
- Following discussion it was **PROPOSED, SECONDED**, and once put to the vote, **AGREED** that the Committee should receive treasury management training, as part of the induction process, following the elections in May 2023.

It was then:

**RECOMMENDED:**

1. That the Audit Committee **SCRUTINISED** and **RECOMMENDED** to Council the approval of the 2022/23:
  - i) Capital Strategy (as attached at Appendix A of the attendant report)
  - ii) Treasury Management Strategy (as attached at Appendix B of the attendant report)
  - iii) Investment Strategy (as attached at Appendix C of the attendant report)
  - iv) That delegated authority be given to the Section 151 Officer, in consultation with the Leader of the Council and the Executive Member for Finance, to make any minor amendments to these Strategies if required throughout the 2022/23 Financial Year.
2. That, as part of the 2023 Member Induction Programme, the Committee request that a Treasury Management Training session be included.

**A.36/21 BUDGET BOOK 2022/23**

Consideration was given to a report that set out the Council's Revenue Budget for the year which had been detailed into the four Directorates of Customer Service and Delivery; Place and Enterprise; Governance and Assurance; and Strategic Finance.

During discussion, it was requested that a pdf version of the Budget Book should be sent to Members.

It was then:

**RESOLVED**

That the Audit Committee note the content of the Budget Book for 2022/23.

**A.37/21 SHARED SERVICES METHODOLOGY 2021/22**

The Deputy Leader outlined the report that explained the methodology for apportionment of costs between South Hams District and West Devon Borough Councils. The majority of the costs related to staffing costs. It was noted that the change in the apportionment relating to the contact centre was due to an increase in calls relating to South Hams District Council.

It was then:

**RESOLVED**

That the Audit Committee **NOTE** the methodology of the shared services apportionment of costs between South Hams District Council and West Devon Borough Council for 2021/22, as per Appendix A of the attendant report.

**A.38/21 SUNDRY DEBT**

Consideration was given to a report that provided Members with an update of the position of Sundry Debt and Housing Benefits Overpayments up to 31<sup>st</sup> January 2022. Debt recovery had been paused during the early months of the Covid pandemic but it was confirmed that all debt recovery was now progressing as usual.

The Chairman stated that the current situation was very good.

It was then:

**RESOLVED**

That the position in relation to Sundry Debt be noted.

A.39/21 **REVIEW OF CONFIDENTIAL REPORTING POLICY**

Members considered a review of the Confidential Reporting Policy, also known as the Whistle-Blowing Policy. It was highlighted that this important policy should be regularly reviewed to ensure it remained fit for purpose. It had been a specific recommendation from Grant Thornton's audit of 2020/21 that this policy be reviewed before the year end.

Following a question from a Member, it was confirmed that staff had not had any input to this policy, therefore it was **PROPOSED**, and **SECONDED** that staff should be consulted before the policy was brought to Council meeting on 19<sup>th</sup> May. It was noted that there were a series of in-person staff meetings to be held over the coming weeks and that staff could be consulted then. When put to the vote, this addition to the recommendations was **AGREED**.

It was then:

**RECOMMENDED**

That the Audit Committee **RECOMMEND** to Annual Council that the Council adopt the reviewed Confidential Reporting Policy and related Frequently Asked Questions, as attached at Appendices 1 and 2 of the attendant report, subject to, before the Annual Council meeting in May, all staff being consulted during the next round of Staff Briefings.

A.28/21 **AUDIT COMMITTEE MEETING – Change of Date**

The Committee noted that, since the Calendar of Meetings for 2022/23 had been approved by the Council, it was necessary that, due to officer availability, the Committee meeting scheduled for the 1<sup>st</sup> September 2022 be moved to 8<sup>th</sup> September 2022.

(Meeting commenced at 11:00am and concluded at 2:00pm; with lunch break at 12:45 to 1:15pm)

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Chairman



# South Hams District Council audit plan

Year ending 31 March 2022



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## Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Key matters

## Factors

### Recovery from Covid 19 pandemic

The Council has had to remain flexible in 2021/22 in response to the changing situation caused by the Covid-19 pandemic. It has continued to influence service user behaviour but also impact how those services can be delivered and the working practices of staff. There remains uncertainty over the full financial impact on the Council and future funding arrangements with central government.

### Council update

There have been significant challenges with the delivery of the waste service, in particular the suspension of the garden waste service in August 2021 which was restarted at the end of March 2022. We are aware that the service has been a matter of intense discussions between the Council and its waste contractor, with a view to seeking a long term solution which will provide a robust and sustainable waste service going forward.

### Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting (“the Code”) prescribes the accounting treatment and disclosure requirements for infrastructure assets and requires these to be reported in the Balance Sheet at depreciated historical cost (i.e. historic cost less accumulated depreciation and impairment.)

Nationally, this has become an area of regulator interest, with CIPFA and the National Audit Office also reviewing this issue, with CIPFA having recently convened a task and finish group to consider this specific issue and any resultant changes that may need to be enacted in the Code.

There a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced. This could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values where assets lives have not been assessed regularly and on an appropriate basis.

## Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

In order to inform our value for money work, we will assess and consider the arrangements in place during the year to manage the waste contract and its performance and we will also consider whether the waste contract has any implications on the financial statements.

We will continue to review the progress of the CIPFA task and finish group on this issue and will keep members of the Audit Committee updated with regard to the impact on the financial statements and our audit responsibilities.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Hams District Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Hams District Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Valuation of land and buildings;
- Valuation of investment properties; and
- Valuation of the pension fund net liability.

We considered the other presumed risks in relation to the fraudulent recognition of income and expenditure and rebutted these in line with our understanding of the Council and its revenue and expenditure streams.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £1.06m (PY £905k) for the Council, which equates to approximately 2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £53k (PY £45k).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness at the Council at this stage. We will continue to update our risk assessment as our audit work continues.

During our work we will follow up on the improvement recommendations made in the previous year, as reported in our Auditor's Annual Report, and note any progress.

## Audit logistics

Our interim visit took place in March 2022 and our final visit is planned to take place following receipt of draft accounts, expected in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit at planning will be £61,709 (PY: £54,271) for the Council if remote working is required, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and nature of the revenue streams at South Hams District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We do not consider this to be a significant risk for South Hams District Council.</p>
Risk of fraud related to expenditure recognition (PAF Practice Note 10)	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>We have determined that the risk of material fraud arising from expenditure recognition can be rebutted because, per Practice Note 10, misstatements may arise where the audited body is under pressure to meet externally set targets. This environment does not exist at the Council.</p>	<p>At the planning stage we do not consider this to be a significant risk for South Hams District Council. We will continue to consider this risk as we progress through the audit.</p>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>In the 2020/21 audit, we identified that there was significant manual intervention required from the finance team to reconcile the transaction reports to the financial statements which are indicative of the conditions which create this risk. This was due to the ability of the team to run IT reports from the finance ledger which are large in size due to the number of financial transactions.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of land and buildings	<p>The Council revalues its land and buildings on a rolling five yearly basis. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£68.3m at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date for assets not revalued at 31 March 2022.</p> <p>We therefore identified valuation of land and buildings as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;</li> <li>• review the Council's valuation reports and the assumptions that underpin the valuations to ensure that they appear to be reasonable;</li> <li>• test revaluations made during the year to see if they had been input correctly into your asset register; and</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	<p>The Council has investment properties which must be valued annually at 31st March in accordance with the CIPFA Code. As with other land and buildings, the valuation for these properties is sensitive to changes in key assumptions. Whilst the methods used to value properties are usually generic and based upon RICS guidance, the Council's valuation expert applies key assumptions in the valuation process, with small changes having the ability to create significant changes in valuation.</p> <p>We therefore consider that the significant risk of material misstatement in respect of the valuation of Investment Properties lies with the assumptions and judgements used in the valuation, specifically;</p> <ul style="list-style-type: none"> <li>• the yield applied in the calculation; and</li> <li>• assumptions about annual income and future income levels.</li> </ul> <p>Due to the size of the estimates, and the assumptions set out above, we consider the valuation of Investment Properties to be a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation. This will include testing to rental or lease contracts to check the annual income for properties; and</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> </ul>
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in the balance sheet as the pension liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.4m at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the net defined benefit pension liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Devon County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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## Introduction

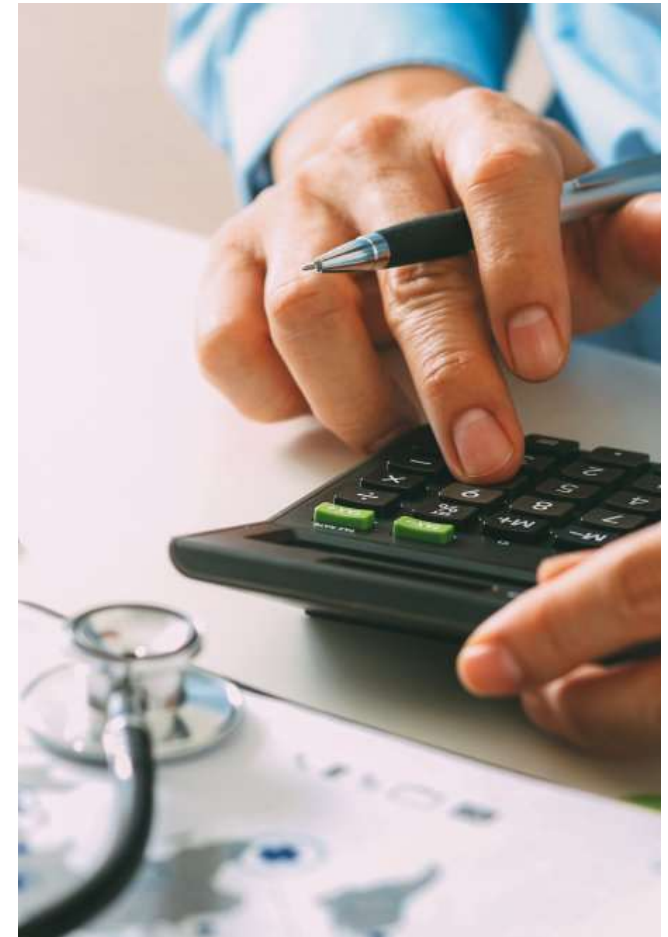
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?





# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- valuations of land and buildings;
- valuation of investment properties;
- valuation of net defined benefit pension liabilities;
- depreciation;
- year end provisions and accruals;
- fair value estimates; and
- credit loss and impairment allowances (if material).

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

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Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and/or
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the previous financial year. In 2020/21 we used the same benchmark. Materiality at the planning stage of our audit is £1.06m (PY £905k) for the Council, which equates to approximately 2% of your prior year gross revenue expenditure. We design our procedures to detect errors in specific accounts at a lower level of decision which we have determined to be £20,000 for senior officer remuneration disclosures.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

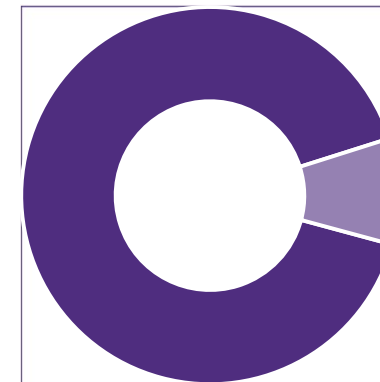
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £53k (PY £45k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£53.3m  
(PY: £45.3m)



■ Prior year gross operating costs

## Materiality

£1.06m  
Council financial statements materiality  
(PY: £905k)



£53k  
Misstatements reported to the Audit Committee  
(PY: £45k)

# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

We are not planning to rely on the operation of application controls. Therefore we will carry out a streamlined ITGC assessment on the IT systems that support the operation of the finance system rather than gaining assurance that the relevant controls of specific systems have been operating effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica	Financial reporting	<ul style="list-style-type: none"> <li>streamlined ITGC assessment (design effectiveness); and</li> <li>understanding of link to feeder systems</li> </ul>
Northgate	Council Tax, Housing Benefits	<ul style="list-style-type: none"> <li>streamlined ITGC assessment (design effectiveness)</li> </ul>
Teamspirit	Payroll	<ul style="list-style-type: none"> <li>streamlined ITGC assessment (design effectiveness)</li> </ul>

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We are aware that post year end, there has been a new system implementation for payroll. Audit procedures for data migration and set up will be included in the 2022/23 audit.

IT system	Event	Relevant risks	Planned IT audit procedures
iTrent	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	<ul style="list-style-type: none"> <li>obtain an understanding of the process used for new system implementation (determine whether there was adequate oversight for acquisition and installation); and</li> <li>audit of data migration activity and results.</li> </ul>

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services.

This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

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### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



# Audit logistics and team



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Jackson Murray, Key Audit Partner

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorisation of reports. Attendance of Audit & Standards Committee meetings supported by Manager as required.



Oliver Durbin, Audit Manager

Responsible for overall audit management over the course of the year, support and review of work performed by audit In-charge and junior team members. Attendance at Audit Committee meetings alongside Engagement Lead as required.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

# Audit fees

In 2017, PSAA awarded a contract of audit for South Hams District Council to begin with effect from 2018/19. The fee agreed in the contract was £33,421. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 9 and 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

The 2021/22 fee also reflects recent regulatory and technical reviews in respect of accounting for infrastructure assets and the additional work that audit teams have been requested to perform considering the potential for derecognition of historic components.

The pandemic has led to considerable changes to how we all work and how we have carried out our audits over the last two years. Many local authorities are exploring new ways of working to support their officers, through use of remote and hybrid working environments. We see the positive benefits this can bring to the Council, and its workforce, both in providing more flexibility and reducing its environmental impact.

Whilst there are many efficiencies to remote working, having the ability to work together with officers face to face in conducting our audit work provides many advantages to the timely progression of the audit; both in minimising inefficiencies in gathering audit evidence, and in discussing key issues with officers and resolving and concluding outstanding queries.

As part of our planning for 2021/22, we have been engaging with the Council to explore completing some elements of our work on-site over the summer. With Covid restrictions now lifted, this is the appropriate thing to do. We have been discussing this with PSAA and propose that where councils continue to have a preference to undertake audits remotely, either fully or in part, that audit fees would be uplifted to reflect the inefficiencies that this would cause. For South Hams District Council, we estimate this uplift to be in the region of £5,000 at our planning stage.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf.

	Actual Fee 2020/21	Proposed fee 2021/22
South Hams District Council Audit	£54,271	£56,709
Remote working (additional fee if required)		£5,000
Total with remote working (if required)		£61,709

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.



# Audit fees – detailed analysis

	Proposed 21/22
Scale fee published by PSAA	£36,421
Raising the bar/regulatory factors	£2,313
Enhanced audit procedures for Property, Plant and Equipment	£687.50
Enhanced audit procedures for Pensions	£687.50
New standards and developments (inc journals and grants)	£5,100
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Infrastructure assets (new issue for 2021/22)	£2,500
Uplift for remote working (if required)	£5,000
<b>Total audit fees (excluding VAT)</b>	<b>£61,709</b> (If remote working needed)

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The table sets out the other services provided by Grant Thornton that were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of the Council's Housing Benefit subsidy claim	11,500*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee (with further agreed costs for additional work required subject to any errors being identified) and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

\*base cost assuming no further work is required to be undertaken on errors identified.



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# South Hams District Council Guidance for audit committee members when reviewing the financial statements

Year ending 31 March 2022

May 2022  
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# Guidance for audit committee members

This paper sets out a series of questions that members could ask at audit committee meetings to assess how things are going and to identify any areas of potential concern. Good governance involves members challenging appropriately financial reports during the year and at the year-end – it is important that they feel able to ask questions and understand why they are asking them. Although some of the questions relate primarily to the annual accounts, they could also be used when reviewing the monthly or quarterly financial position.

The questions are grouped under six headings, namely:

- overall performance;
- accounts preparation;
- comprehensive income and expenditure statement;
- movement in reserves statement;
- balance sheet; and
- cash flow statement.

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The briefing is not intended to be exhaustive in its coverage – instead it focuses on key questions that may be helpful and relevant when discussing different aspects of financial performance and the Council's accounts.

# Guidance for audit committee members

Overall performance

Question	Underlying reasoning
Are the accounting policies consistent with what you know the organisation does in practice?	Accounting policies must be tailored to reflect local circumstances.
Do the accounts include disclosures relating to: <ul style="list-style-type: none"> <li>• judgements made when applying key accounting policies; and</li> <li>• areas where there is uncertainty about the estimates used</li> </ul>	Do these disclosures reflect your understanding? Have these issues been raised by auditors? Are there issues that auditors have raised in previous years which are not reflected in the accounts?
Do the accounts include a disclosure on going concern?	LG bodies prepare their accounts on a going concern basis. However, disclosures are required on managements' assessment of going concern and any uncertainties relating to that status. This disclosure should reflect any concerns about the financial position or cash flows of the LG body.

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# Guidance for audit committee members

Overall performance

Page 30

Question	Underlying reasoning
Can you see the impact of any savings schemes during the year? These schemes may include a reduction in headcount, income generation or changes to procurement? How are savings managed?	This is to check whether known changes have been reflected. Successful savings schemes should be reflected in the accounts – for example, reductions in headcount should result in reduced staff costs.
Are the financial assumptions consistent with the organisation's annual plan and previous financial information provided?	If in-year forecasting and reporting is accurate, there should not be any surprises at the year end: the year-end accounts should reconcile to the in-year financial reports. If there are any inconsistencies, can they be explained?
Have there been any significant issues raised with the audit committee during the year? - for example, significant weaknesses in systems, or variances between planned and actual activity, that could cast doubts on the assumptions made?	If there is any potential missing information or doubts over assumptions, have these been explained?



# Guidance for audit committee members

Overall performance

Question	Underlying reasoning
<p>Have the annual governance statement and head of internal audit opinion recorded any internal control issues?</p>	<p>A key part of the year-end process, the Section 151 officer must review the system of internal control and whether or not the organisation has faced any significant control issues – for example, serious incidents. Do these disclosures reflect your understanding? Have any issues raised the previous year been resolved? Are milestones in place for outstanding issues?</p>

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# Guidance for audit committee members

Accounts preparation

Page 32

Question	Underlying reasoning
<p>Do the financial statements as a whole (and as part of the annual report and accounts) focus on the important issues and highlight the key financial issues for the LG body?</p>	<p>Some disclosures in the financial statements are required by accounting standards. However, there is an initiative within financial reporting to ‘cut the clutter’ which means taking out immaterial disclosures, zero rows and columns to help the reader of the accounts identify what is important. Taking a step back, think about whether the accounts, as a whole, reflect your understanding of the financial position of your organisation.</p>
<p>What is the level of adjustments via manual journals?</p>	<p>Journals are used by the finance team to adjust the amounts in the ledger. This is normal financial management. However, LG bodies that encounter financial difficulties may report large/ material journals that adjust the financial position and cannot be adequately explained on deeper investigation.</p>

# Guidance for audit committee members

Accounts preparation

Question	Underlying reasoning
Do you understand and agree with any judgements/ estimates that have a material impact on the financial statements?	There are always areas of judgment/ estimation when preparing the accounts. For example, in considering the level of provisions that should be established; the basis of valuation of non-current financial assets; write-off of receivables. These should be consistent with your understanding of the organisation and its wider policies/ strategies.

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# Guidance for audit committee members

Statement of comprehensive income and expenditure

Page 34

Question	Underlying reasoning
How have the figures changed compared to last year and the year before that? Are any changes expected/unexpected?	For changes that you were expecting, do the figures look right? If no changes were anticipated, you would generally expect figures to increase with inflation. If there are movements that are much larger than this, you should find out why. Any unexpected changes need to be identified and explained.
Do the figures seem reasonable and complete, including those entries that are zero?	Is any information missing? If it is, do you know the reason?
Is the surplus/ deficit consistent with the forecasts made during the year?	If in-year forecasting is accurate, there should not be any surprises at the year end. If there is a significant change, can it be explained?
Has there been a prior period adjustment?	Is this due to a change in accounting policy that should be reflected in the opening note to the accounts, or another reason?
Do you know what expenditure has been included in 'other' categories?	Expenditure is expected to fall into specified categories in most cases. If it is included in 'other', do you know what this is and understand why it does not fit with any of the specified categories?

# Guidance for audit committee members

Statement of comprehensive income and expenditure

Question	Underlying reasoning
What has caused changes in pay expenditure?	How much of the change relates to pay awards? What has been the impact of agency? Which areas of staff expenditure are increasing? Does any movement in staff costs correspond to the change in staff numbers?
To the best of your knowledge, does the disclosure in relation to remuneration of senior employees appear complete?	Do the figures reflect your knowledge of directors in position during the year and any changes? Do the amounts disclosed reflect your understanding of the amounts paid to each individual?
Do the income figures appear reasonable and can officers explain the reasons for any changes from the previous year?	A wider understanding of what income is expected can flag potential areas of omission or where further review is needed.

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# Guidance for audit committee members

Statement of comprehensive income and expenditure

Question	Underlying reasoning
Do the expenditure figures appear reasonable and can officers explain the reasons for any significant changes from the previous year? For example, do you know what services you now buy from another organisation that you did not buy last year?	A wider understanding of what expenditure is expected can flag potential areas of omission or where further review is needed.
Is there a meaningful change in the depreciation figure in the statements?	Has the organisation changed the useful economic lives of its assets (this should be reflected in the accounting policies noted above). If so, is this change appropriate?

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# Guidance for audit committee members

Statement of comprehensive income and expenditure

Question	Underlying reasoning
If there has been an impairment (loss in asset value), do you know why? Does the property, plant and equipment note to the accounts reflect the situation accurately and clearly?	Assets lose value due to changes in the economic climate and damage/ obsolescence. Is any change reasonable based on your knowledge of the organisation and the prevailing economic climate?
Can officers explain the reasons for any significant changes in leasing costs and/ or commitments?	Have any material leases been signed during the year or have any come to an end? A wider understanding of what lease changes are expected can flag potential areas of omission or area for further review.

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# Guidance for audit committee members

Movement in reserves statement

Question	Underlying reasoning
Do the lines that should net to zero do so when added together? Lines which net to zero are transfers between reserves.	Do you understand the reason for any transfer? Looking at the lines may identify any omissions or amendments elsewhere in the accounts that have not tracked through.
Has there been a prior period adjustment?	Is this due to a change in accounting policy that should be reflected in the opening note to the accounts, or another reason?
Are there any significant changes to the revaluation reserve? (See also the questions on non-current assets under the statement of financial position.)	Have these been explained and does the reason fit with what you know? Are revaluations based on appropriate assumptions? Have those assumptions been discussed and reviewed by the audit committee?

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# Guidance for audit committee members

Balance sheet

Question	Underlying reasoning
Have any items changed significantly since last year?	Do any changes fit with your knowledge of the organisation's activities? Use the note references to find out more detail about any items that look unusual.
<b>Non-current assets (property, plant and equipment)</b>	
Does the movement in the valuation of property, plant and equipment agree to the revaluations and impairments of these assets and are they what you expect?	Assets lose value due to changes in the economic climate and damage/ obsolescence. Is any change reasonable based on your knowledge of the organisation and the prevailing economic climate? Assets can increase in value due to changes in the property market or changes in the building trade - for example, the price of building materials.
Do non-current asset additions and disposals tie in with your knowledge of the organisation's capital programme?	A wider understanding of asset movements expected can flag potential areas of omission or further investigation. The level of additions and disposals should tie in with your understanding of the capital programme and estates management plans.

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# Guidance for audit committee members

Balance sheet

Page 40

Question	Underlying reasoning
Has there been a professional valuation of the property this year?	There is no requirement to have an annual valuation but the asset values must be materially correct. Do you understand your organisation's policy on valuation?
Has the valuer used or the valuation basis changed?	The valuation of property requires judgments, assumptions and estimates to be made. Different valuers make different judgements. Do you understand the reasons for the judgements/ estimates made and do they make sense in relation to the body's capital programme and overall strategy?
Do movements in property, plant and equipment agree with your understanding of the capital programme?	Can any movement in property, plant and equipment be explained by asset disposals or acquisitions?
Has there been a loss on the disposal or sale of an asset? Was this expected?	Any disposals should be part of the wider capital programme. It is worth asking why there was a loss on disposal. A wider understanding of expected asset movements can flag potential areas of omission or error.

# Guidance for audit committee members

Balance sheet

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Question	Underlying reasoning
<p>Has there been a reclassification out of assets under construction into property, plant and equipment – does the organisation have a new building that has just become operational?</p>	<p>This should be part of the capital programme. Once an asset is operational, the costs related to that asset (depreciation, maintenance and so on) should be included in financial plans and forecasts. A wider understanding of expected asset movements can flag potential areas of omission or error.</p>
<p><b>Non-current/ current assets</b></p>	
<p>Are receivables growing? Does the organisation have more money tied up in debtors? Is there an effective debt recovery process?</p>	<p>What are the underlying reasons? Is there a prompt payment policy? The longer debts take to be paid, the greater the pressure on the organisation's cash flow.</p>
<p>Are there any particularly large receivables this year, or significant changes from the prior year? Can officers explain the reasons for these?</p>	<p>When reviewing receivables, it is important to consider the 'collectability' of balances. If receivables increase, what is the effect on aged debtors and debtor days? Any unexpected or unexplained large movements may highlight an area for further review.</p>

# Guidance for audit committee members

Balance sheet

Question	Underlying reasoning
Can officers explain the level of bad debts that have been provided for and written off?	Bad debt provision is a judgement – are the assumptions used in calculating this in line with expectations?
Does the provision for impairment of receivables look reasonable?	Provisions are based on judgement – are the assumptions used in calculating this in line with expectations?
Have prepayments only been made to organisations that have sound financial standing and where the organisation gains value from the prepayment?	Public sector bodies generally should not make payments in advance of receiving goods or services. Such payments should only be made to achieve value for money. The risk that the goods/ services may not be delivered should be recognised and a mitigation strategy put in place. The organisation’s cash flow should also be protected.

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# Guidance for audit committee members

Balance sheet

Question	Underlying reasoning
<b>Non-current/ current liabilities</b>	
Have trade payables (creditors) grown? How much money does the Council owe its suppliers?	If this is increasing, the organisation may be experiencing cash flow problems and delaying payment to creditors to manage its cash position.
Are there any particularly large trade or other payables this year, or significant changes from the prior year? Can officers explain the reasons for these?	An increase in payables may indicate cash flow problems. Any unexpected or unexplained large movements may highlight an area for further review.

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# Guidance for audit committee members

Balance sheet

Question	Underlying reasoning
<p>Can officers explain significant receipts in advance and deferred income?</p>	<p>Public sector bodies generally should not make payments in advance of receiving goods or services. Have the services/ goods that have already been paid for been taken into account in forecasts? What is the reason for the deferral? If there is a judgement required, has it been discussed and agreed with both the third party involved and auditors? Receipts in advance and deferred income require agreement with the third party involved. Failure to gain appropriate agreement can result in material income and expenditure mismatches. This may result in audit adjustments at the year end.</p>
<p>If the cash balance has changed, do you know why? (There are more detailed questions on cash in the 'cash flow statement' section of this checklist.)</p>	<p>This needs to be looked at alongside receivables and payables to get the full picture: low cash balances, growing receivables and payables means cash flow difficulties.</p> <p>If cash balances are falling, does this correspond with a falling surplus or increasing deficit? If not, ask how the financial performance in the comprehensive income and expenditure statement ties up to the movement in cash balances?</p>

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# Guidance for audit committee members

Balance sheet

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Question	Underlying reasoning
If provisions have changed, why is this?	Provisions should be reasonable to cover the organisation against future liabilities. If there are increases in provisions what is the reason for this? Equally, if provisions have fallen, is this because they have been discharged and payment made or is it due to a change in estimates? If the estimation basis has changed, are you happy with the reasons for this change?
If there are large borrowings, do you know what they are?	Does the organisation have any loans that it is in the process of repaying? Has it made the repayments it should have done during the year?
Do the figures seem reasonable and complete, including those entries that are zero?	Where entries for current and prior years are zero, or where a line is missing, check whether this is because of rounding or because it reflects a lack of activity.

# Guidance for audit committee members

## Cash flow statement

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Question	Underlying reasoning
Do the changes in cash and cash equivalents result in a net cash outflow or a net cash inflow?	Liquidity problems are highlighted by cash inflows in the year that are less than cash outflows.
Do you understand the reasons for any large movements?	A large capital programme may result in a net outflow of cash. Equally, loans may result in an increase. However, any unexpected or unexplained large movements may highlight areas for further review.
Does the organisation's reported cash flow position at the year-end correspond with that reported during the year?	If in-year forecasting is accurate, there should not be any surprises at the year end. If there is a significant change, can it be explained?
Has the organisation bought any assets during the year? Can you see them in the payments for property, plant and equipment?	Capital purchases should all be reflected in the capital programme. The overall effect of capital purchases may not affect cash balances if the purchase is funded by a loan. Do the purchases have the expected effect on cash?



# Guidance for audit committee members

Cash flow statement

Question	Underlying reasoning
Has the organisation made any loan repayments during the year? Are you aware of the reasons why the organisation has a loan and what its repayment profile is?	If payments are due and have been delayed, is this because there is insufficient cash flow to meet commitments?
Have the organisation's cash balances increased overall during the year? Is there a long term plan as to how to use these balances?	Is this expected? Or is it because payments have been delayed? The cash balances should be in line with reported plans.

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# Informing the audit risk assessment for South Hams District Council

2021/22

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Agenda Item 7

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between South Hams District Council's external auditors and South Hams District Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management;
- Fraud;
- Laws and Regulations;
- Related Parties;
- Going Concern; and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from South Hams District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Covid pandemic remains a key event in terms of the financial statements for 2021/22. The Council has continued to receive various sources of COVID funding and specific grants during the year and has paid out significant business grants.</p> <p>Valuations of Property, Plant &amp; Equipment and Investment Properties.</p> <p>Accounting treatment of COVID grants received and any subsequent repayments.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by South Hams District Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes the appropriateness has been considered – they are considered appropriate.</p> <p>No</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>A summary of Financial Instruments carried on the Balance Sheet are shown in Note 14 to the Accounts.</p> <p>The Council has a £1.5m Investment with the CCLA Property Fund and a £2m Investment with the CCLA Diversified Income Fund. These are non-specified investments. These investments were made in April and May of 2018.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No – see comments in Section 1 about the Covid pandemic in general.</p> <p>Extra work carried out in relation to Covid19 and issuing grants.</p> <p>On 31<sup>st</sup> March 2022, the Council agreed to make a grant payment of £10,000 to the Ukraine Humanitarian Appeal. This payment will happen in 2022/23 and has been accrued for.</p> <p>The Council has been in contractual discussions with its waste contractor, FCC, during 2021-22.</p>



# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No. The main two contracts the Council has is for the delivery of waste services with FCC and for the delivery of leisure services with Fusion Leisure.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by South Hams District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Yes – a list will be provided during the Interim Audit and at the end of the year when the ledger is closed.</p> <p>There are no known contingencies from previous years being worked on.</p> <p>The Council has been in contractual discussions with its waste contractor, FCC, during the year.</p>

# General Enquiries of Management

Question	Management response
9. Have any of the South Hams District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Link Services have advised on Treasury Management advice for the year</p> <p>Local Government Futures have given advice to the Devon Business Rates Pool on the decision to continue to pool for 2022/23 and advice on the Plymouth and South Devon Freeport with regards to business rates and business rates relief.</p> <p>A list will be provided at the end of the year when the ledger is closed.</p> <p>A strategic financial report from an independent local government advisor was commissioned on the Council's arrangements with its leisure contractor, Fusion Lifestyle. This was the subject of a report to Council on 31 March 2022.</p> <p>The Council has also commissioned external advice on its waste service and the current contractual discussions with its waste contractor, FCC.</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No assets have been identified.

# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As South Hams District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud;
- process for identifying and responding to risks of fraud, including any identified specific risks;
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud; and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from South Hams District Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has South Hams District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council's Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for South Hams District Council. This is done through the following:  <i>Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy.</i>            The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches.  <i>The System of Internal Audit:</i> as described below, related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>The Senior Leadership Team consider it to be unlikely that the financial statements are materially misstated due to fraud.</p> <p>6 monthly reports on risk management are presented to the Council's Audit Committee. The risk management matrix used makes an assessment of the financial impact and the scoring is based on a range of financial impacts.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The area most at risk of Fraud is Housing Benefit Fraud and fraud of the Business Grants administered by the Council.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within South Hams District Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Not within the Council or within Council departments.</p> <p>Fraud risk assessments have been completed for the administration of Business Grants during the year.</p> <p>Suspected fraud on the business grants has been reported to the Devon Audit Partnership fraud team.</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Any suspected fraud has been reported and investigated through the Devon Audit Partnership.</p> <p>The internal audit manager reports quarterly on fraud issues to the Council's Audit Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within South Hams District Council where fraud is more likely to occur?</p>	<p>Please see details in 3.</p>
<p>6. What processes do South Hams District Council have in place to identify and respond to risks of fraud?</p>	<p>The Audit Committee receives a six monthly report on strategic risks. The Audit Committee also receives an annual report from the Statutory Officers' Panel (consisting of the Chief Executive, the S151 Officer and the Monitoring Officer) and one of the areas considered is Fraud. The Internal Audit Manager also reports on Fraud as part of his annual internal report to the Audit Committee.</p> <p>Fraud risk assessments have been completed for the administration of Business Grants during the year.</p> <p>Any suspected fraud has been reported and investigated through the Devon Audit Partnership.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for South Hams District Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The Internal Control environment is reported on a quarterly basis to the Audit Committee as part of the regular reporting of the Internal Audit Manager.</p> <p>A 'follow up' report is done on all internal audits on an annual basis also.</p> <p>Housing Benefit fraud and Business Grants fraud are the highest risk areas.</p> <p>Post payment assurance reporting for business grants. Preventive controls are designed into systems to help stop fraud at the gateway for application processes. Reconciliations, segregation of duties, formal schemes of delegation and authorisation are in place for financial transactions. Compensating controls such as counter fraud measures.</p> <p>See above</p> <p>None known of.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None known of to the S151 Officer</p>

# Fraud risk assessment

Question	Management response
<p>9. How does South Hams District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Anti Fraud, Corruption and Bribery arrangements, whistle blowing policy and other ethical standards are publicised throughout the Council and to a wider audience outside through training, leaflets, the internal computer network and the Council's website etc. The updated whistle blowing policy was considered by the Audit Committee in March 2022 and will form part of the May 2022 staff briefings.</p> <p>Reliance is placed on the process and the Council's Constitution, which includes the following: After consulting with the Head of Paid Service and the Monitoring Officer, the Section 151 Officer will report to the full Council and the Council's external auditor if it is considered that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully; After consulting with the Head of Paid Service and Section 151 Officer, the Monitoring Officer will report to the Full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.</p> <p>There are processes in place to provide members of the Audit Committee, and other member bodies, with the assurance that when considering agenda items all relevant laws have been complied with, which includes: A formal system of consultation for all reports to member bodies, which includes advice on the legal implications from qualified solicitors and advice on financial implications by qualified accountants; The S151 Officer is not aware of any significant issues raised. Suspected fraud on business grants has been reported to the Devon Audit Partnership to investigate.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?</p>	<p>All 5 posts within the Senior Leadership Team – being the Chief Executive, the Deputy Chief Executive, the S151 Officer, the Director of Place and Enterprise and the Director of Governance and Assurance. Through the recruitment process (and rigorous selection process and references), through regular appraisals and assessment against the six IMPACT behaviours.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The S151 Officer is not aware of any.</p> <p>The Monitoring Officer holds a Register of Interests for Members and Officers.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for the Council.</p> <p>This is done through the following: Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy (this was recently considered by the Audit Committee at their March 2022 meeting):</p> <p>The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches.</p> <p>The System of Internal Audit: related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>Fraud issues on the Business Grants were reported to the Audit Committee during 2021/22.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The S151 Officer is not aware of any.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No.</p>



# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that South Hams District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does South Hams District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Every Committee and Council report has to state the legal implications of the report and state the legal powers that are being used to make a decision.</p> <p>The Monitoring Officer and the S151 Officer review all reports that are published and reports are 'signed off' by these Statutory Officers.</p> <p>Annual Governance process certifies that statutory obligations for the services managers are responsible for, have been understood and fulfilled.</p> <p>No</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit reports, annual assurance opinion and results of the annual governance review process.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No material claims known of.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does South Hams District Council have in place to identify, evaluate and account for litigation or claims?	The S151 Officer and Monitoring Officer have regular meetings with the Chief Executive where any such items would be discussed. None known of.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No – None known of.

# Related Parties

## Matters in relation to Related Parties

South Hams District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by South Hams District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in South Hams District Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and South Hams District Council</li> <li>whether South Hams District Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No changes.</p>
<p>2. What controls does South Hams District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Members and all of the Senior Leadership Team are required to complete a Related Parties Return in April 2022 following the Year End. Items disclosed on these returns are reviewed by the Finance Head of Practice, to assess whether they need to be disclosed within the Financial Statements. A register of Member and Officer interests is maintained.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>See comments above. None known of to the S151 Officer. If this situation arose, the S151 Officer would discuss it with the Monitoring Officer and the Head of Paid Service to ensure mitigating controls were put in place. Robust procurement controls are operated with contract authorisation limits.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>See comments above. None known of to the S151 Officer. If this situation arose, the S151 Officer would discuss it with the Monitoring Officer and the Head of Paid Service to ensure mitigating controls were put in place.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis of accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by South Hams District Council will no longer continue?</p>	<p>The Council's Senior Leadership Team (SLT) meet twice a week and if this situation occurred all members of the SLT would be aware of this (including the S151 Officer). The Chief Executive and Deputy Chief Executive meet weekly with the Leader and Deputy Leader of the Council.</p>
<p>2. Are management aware of any factors which may mean for South Hams District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>The S151 Officer is not aware of any factors that may mean that statutory services will no longer be provided or that funding for statutory services will be discontinued.</p>
<p>3. With regard to the statutory services currently provided by South Hams District Council, does South Hams District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for South Hams District Council to cease to exist?</p>	<p>South Hams District Council expects to deliver its statutory services for the foreseeable future. There are no plans for South Hams District Council to cease to exist.</p>
<p>4. Are management satisfied that the financial reporting framework permits South Hams District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes management are satisfied that the financial reporting framework permits South Hams District Council to prepare its financial statements on a going concern basis. Revenue Budget Monitoring reports and Capital Programme Monitoring reports are reported regularly to the Executive. An annual budget and regular medium term financial strategy reports are considered by the Executive and Council throughout the year.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the body's risk management process identifies and addresses risks relating to accounting estimates;
- the body's information system as it relates to accounting estimates;
- the body's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.



# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The Council has administered a significant amount of Business Grants on behalf of the Government. In addition, the Council has also received other Government Grants to administer. These amounts are material and will be highlighted in the relative parts of the Accounts e.g. the Collection Fund.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The most significant accounting estimates are reviewed when the actual data is known, to assess the accuracy of the original estimate.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	This is done on an individual basis with respect to the key accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	This forms part of the post audit review of the closedown procedure.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes are envisaged at this early stage of the Accounts preparation process.

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# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>This is a judgement which is made on an individual basis e.g. bad debt provisions. Specialist knowledge is obtained where needed from experienced external advisers, e.g. business rates appeals.</p> <p>The Chief Finance Officer (S151 Officer) is a member of the Strategic Leadership Team (SLT). The finance team have knowledge acquired through professional qualifications and/or training.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Chief Finance Officer considers these as part of their materiality assessment and also as part of dialogue with the Legal department in relation to any claims.</p> <p>Internal audit reports are considered where they report on any relevant control weaknesses.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Through the monthly budget monitoring exercise carried out and monthly reporting of financial data.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Financial monitoring reports are presented to the Senior Leadership Team/Executive and Audit Committee and any challenge is made on assumptions.</p> <p>Through the budget monitoring process, the Finance team consider the robustness of estimates and challenges these.</p> <p>Members of the Extended Leadership Team (ELT) and service managers provide updates if material on any significant developments and data provided from the debt recovery process.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>Business Rates appeals The Council has been in contractual discussions with its waste contractor, FCC, during the year</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>A full review is undertaken each year by the Senior Revenues Specialist and the S151 Officer on business rates appeals. The Council also engages with Local Government Futures for their advice on this technical area. The Council has procured external advice on its waste service.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Through the collation and approval of the annual accounts and accounting policies</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Use of internal qualified valuers.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2021/22.	In house valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion. Valuers look at in terms of materiality, RICS and accounting guidance.	No
Investment property valuations	Use of external qualified valuers. Measured annually at Fair Value.	Valuations are performed annually	External valuations where appropriate	Degree of uncertainty inherent with any revaluation. Valuers look at in terms of materiality, RICS and accounting guidance.	No
Depreciation and estimated remaining useful lives	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year	See left box	Discussion with internal asset team and where applicable the Council as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities  Page 75	Staff are members of the Local Government Pension Scheme (LGPS), administered by the Devon County Council Pension Fund. The actuarial gains and losses figures are calculated by the actuary of the Devon Pension Fund.	The Council responds to queries raised by the actuaries and the administering body. Rely on calculations made by the actuary. The Council challenges any unusual movements or assumptions with the actuary.	The Council is provided with an actuarial report by the Pension actuaries.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Measurement of financial instruments including fair value estimates	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at the year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Method depends on the provision type – e.g. bad debt provisions are based on an aged debt analysis. Provisions are identified through monthly monitoring which flags any potential issues to management.	Each provision is separately reviewed by an accountant and a working paper is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid. The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 for a number of years.	Regular budget monitoring provides rigorous analysis so that any accruals are highlighted and actioned throughout the year. Estimates are provided by budget holders wherever possible.	N/A	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid. Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used. Review of the financial ledger line by line for variances.	No
Credit loss and impairment allowances	Review of all assets undertaken annually to assess whether there is any indication that an asset may be impaired	See left	Discussion with the Council's asset team	Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	No



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Report to: **Audit and Governance Committee**  
Date: **30 June 2022**  
Title: **Internal Audit Annual Report 2021/22**  
Portfolio Area: **Cllr J Pearce – Leader of Council**  
Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Dominic Measures** Role: **Audit Manager**  
**Robert Hutchins** **Head of Partnership**

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## RECOMMENDATIONS

**It is recommended that the Audit and Governance Committee**  
**NOTE:**

- 1. that overall and based on work performed during 2021/22, and that of our experience from previous year's audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.**
- 2. the performance and achievements of the Internal Audit Team during 2021/22.**

## **1. Executive summary**

This report summarises the work undertaken by the Council's Internal Audit team during 2021/22, reviews the performance of the Internal Audit service and provides an audit opinion on the adequacy of internal control. The report is particularly relevant to the preparation of the Authority's Annual Governance Statement which is required under the Accounts and Audit (England) Regulations 2015.

This report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2021/22 to 1<sup>st</sup> June 2022, by:

- Providing a summary of the main issues raised by completed individual audits; and
- Showing the progress made by Internal Audit against the 2021/22 annual internal audit plan, as approved by this Committee in April 2021, and
- Providing an opinion on the adequacy of the Council's control environment.

## **2. Background**

The Audit and Governance Committee, under its Terms of Reference contained in South Hams District Council's Constitution, is required to consider the Head of Internal Audit's annual report, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2021/22 was presented to and approved by the Audit Committee in April 2021. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2021/22 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

## **3. Outcomes/outputs**

The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to present an annual report providing an opinion that can be used by the organisation to inform its governance statement.

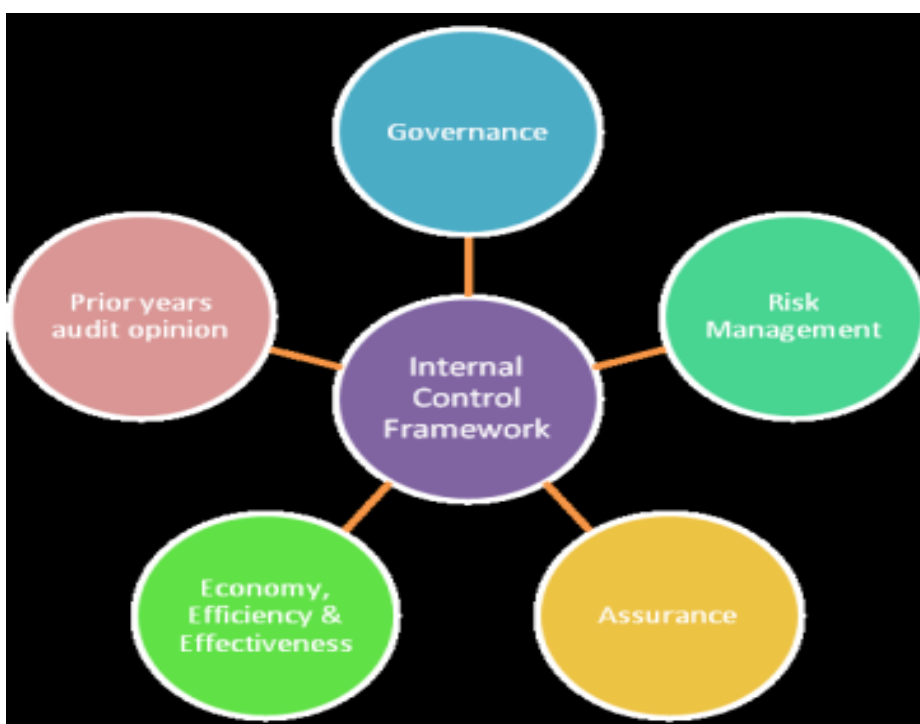
In carrying out our work, Internal Audit assess whether key, and other controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. Final audit reports, will if applicable, include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Details of Internal Audit’s opinion on each audit review carried out in 2021/22 have been provided to relevant members of the Senior Leadership Team to assist them with compilation of their individual annual governance assurance statements.

**Overall and based on work performed during 2021/22, and that of our experience from previous year’s audit, the Head of Internal Audit’s Opinion is of “Reasonable Assurance” on the adequacy and effectiveness of the Authority’s internal control framework.**

*This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement*

The above statement of opinion is underpinned by our consideration of:



<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## Key Findings 2021/22

As has been reported previously to Audit and Governance Committee members, the 2021/22 Audit Plan has been impacted by the COVID-19 pandemic with one half of the Internal Audit resources continuing to assist officers in the payment of various grants to businesses throughout the year, in particular the evaluation/reviewing of applications. However, as well as completing those audits that carried over from the 2020/21 plan, the remaining resources have undertaken 2021/22 audits, 13 of which were finished, with final reports issued. For five others, fieldwork has been completed with draft reports issued and we await responses from management on the content of those reports and the recommendations made, including a number undertaken in the final quarter. Throughout the year, conversations have been held with Senior Management to review and amend the original approved plan to reflect on-going issues and resourcing. This resulted in some audits being cancelled or deferred into 2022/23.

As stated above, based on the work that has been carried out, we are able to provide reasonable assurance on the overall internal control framework. During the year, four audit assignments have been completed with final reports issued for which an audit opinion of "Limited Assurance" has been provided. These are:

- Debtors 2021/22 review;
- Council Tax and Business Rates 2021/22 review;
- Estates Property & Rents Follow Up;
- Performance Management (Data Quality) Follow Up.

It is pleasing to report that none of our audit reviews resulted in an audit opinion of "No Assurance" (please refer to appendix B for definitions of the various audit opinions).

We set out below some of the key issues of concern identified in those audits. It should be noted that agreed management actions plans are in place to address the weaknesses, and we consider that if such actions are completed promptly then the control issue will be addressed. Many of the findings have previously been reported at audit committee meetings during the 2021/22 year.

### **Debtors** (previously reported)

Our audit review, the majority of which was conducted in Autumn 2021, concluded that the controls in place provided "**Limited Assurance**".

In general, the raising and issuing of invoices to customers was satisfactory. However, issues remained around the timely and effective recovery of outstanding debts. Some of the matters we noted were reported following our 2019/20 review, but it is acknowledged that many officers have experienced additional work pressures for much of the intervening period, as a result of the Covid pandemic.

There are a number of areas which would benefit from improved controls and, quite often, this would appear to be linked to the available staff resource:

- The monitoring of suppressions placed on recovery;

- Identification and monitoring of 'Broken Instalment' reports;
- Sundry debts had not been sent to the Councils' enforcement agents for recovery but this was being reviewed;
- The opportunity to recover debts through the courts or by means of other legal action had not been utilised, due to a combination of insufficient experience in the Debtors team and insufficient staff resource within the Legal practice. Once again, this was under review by SLT;
- The continued use of the old, unsupported version of the Civica Financials system instead of the replacement web-version of the software which was found to be less user-friendly and so staff had not migrated to its use; and
- The Councils holding a significant amount of aged and/or obsolete data on the debtors system (as well as other Civica Financial modules).

### **Business Rates and Council Tax** (See Appendix B)

The majority of the review was undertaken during November and December 2021 and concluded with an audit opinion of "**Improvements Required**".

The Covid pandemic has impacted heavily on the Revenues team, almost all of whom spent 2020 & 2021 working on Covid Business Support Grants (£85million was paid out to businesses in the South Hams), in addition to delivering day-to-day work. Despite bringing in staff from other teams to assist with the initial grants during 2020/21 (but not 2021/22), there was insufficient staff resource to carry out much more than essential routine revenues work. This has had a continued impact into 2021/22 and it is noted that the team are now responsible for processing the Government's Council Tax Energy Rebate (£150) which will further impact on existing workloads. This is delaying the implementation of some improvements to systems and procedures, as well as creating a backlog of day-to-day work that has had to be cleared in addition to addressing new work coming in. However, Internal Audit recognise the achievements of the team in maintaining core revenues services as well as supporting businesses and residents through the Covid pandemic.

#### *Revenue and Benefits Service Review*

At the request of the Senior Leadership Team, the Specialist - Legal has undertaken a Revenue and Benefits service review, covering all aspects of the teams' work. The review was carried out over a period of months during 2020/21 and 2021/22 resulting in a number of recommendations and the establishment of an Implementation Plan. The officer's secondment to the Revenue and Benefits service has allowed a more in-depth review to be undertaken for some areas of work, including recovery and enforcement, as well as to provide assistance with the implementation of recommendations arising from their review. In terms of our audit review, we looked to avoid duplication of this work, restricting our own review away from where reliance can be placed on the findings of the Specialist - Legal.

#### *Changes to Head of Service*

As a result of the Councils declaring a Housing Crisis, the former Head of Housing, Revenues and Benefits was asked to focus solely on Housing and as such, is now the Head of Housing. This has meant that since September 2021, the Revenues and Benefits teams have been without a Head of Service.

The Business Manager – Specialists has been overseeing the delivery of the Improvement Plan, arising from the Service Review, pending the recruitment of a new Head of Revenues and Benefits, with the successful candidate in post by early September 2022. Inevitably, this has had an impact on the progress of delivering the Improvement Plan and a planned review of capacity.

#### *2021-22 Audit Review Key Findings*

Whilst it is pleasing to see that some of the recommendations that we made in our 2020/21 report have been implemented, a number remain outstanding, almost entirely due to staff being required to work on the Business Support Grants. We repeated these in our latest report as a reminder, as well as raising a small number of new matters. The most significant issues include:

- the effective use of available staff resource and, importantly, the removal or mitigation of risks posed by single points of failure;
- the review of procedures and resources to allow the prompt identification of new and re-purposed properties;
- conducting an on-going programme of review of discounts and exemptions to confirm continued eligibility and;
- the updating of the write off policy and associated procedures.

We are aware that single points of failure will be addressed by the new Head of Service along with the identification of new and re-purposed properties and we support the intention of officers to carry out a detailed review of all aspects of recovery and enforcement, giving consideration to relevant issues raised in our report.

We understand that the majority of the significant recommendations made in our 2021/22 audit report have also been included in the Implementation Plan resulting from the Revenue and Benefits Service Review.

Our recommendations have been aimed at the new Head of Revenues and Benefits, based on the expected start date of September 2022 but in the interim the Business Manager – Specialists will continue to oversee their implementation.

#### **Estates Property & Rents Follow Up** (previously reported)

Our audit review, which was conducted during July 2021, concluded that the controls in place provided “**Limited Assurance**” but with an upward direction of travel with regards improvements since our original audit review in 2019/20.

We acknowledged that improvements had been made over the last two years, but there remained several key areas where working practices could be made significantly more effective and efficient, particularly by better use of existing software, as well controls being strengthened in a small number of areas.

At the time of our previous audit in 2019/20, the Head of Assets post was vacant, with the present postholder commencing shortly after our audit was completed. Having spent some time becoming familiar with the wider SHDC and WDBC portfolios (beyond just investment property) and how these are managed, the Head of Assets

independently identified a number of issues to be addressed, some of which we had raised in our 2019/20 audit report.

There had been improvements in some of the areas we reported on in 2019/20. For example, rent reviews appeared to be largely completed on a timely basis and invoices raised more promptly after Legal had completed a new or revised lease. Tenant arrears were now regularly monitored by the Head of Assets, the Specialist – Estates and the Senior Case Manager – Support Services Finance, whilst the latter also monitors those debtor accounts with a suppression placed on recovery. Enforcement action is decided on a case-by-case basis, where routine reminder letters haven't resulted in a payment.

Limited work had taken place to address other issues identified in our previous review. We therefore repeated a number of our recommendations from 2019/20, but updated those where some improvements had begun to take place, or were already planned by the Head of Assets, these recommendations were:

- Introduction of a planned maintenance programme for those investment properties owned by the Councils;
- Regular reviews to ensure that the property portfolio continues to meet corporate objectives;
- Making better use of the Concerto software to manage the investment property & estate management portfolios, removing the need for spreadsheets;
- Taking advantage of work-flow systems to provide efficiencies in the management of investment & estate management properties and the collection of income;
- Creation of a suite of reports to provide effective management information relating to the property portfolio.

### **Performance Management (Data Quality) Follow-Up** (previously reported)

Following the completion of our audit, which took place during October and November 2021, our audit opinion is one of "**Limited Assurance**" but with a positive direction of travel in terms of improvements to controls and processes since our initial review a year earlier.

Since November 2021, themed performance monitoring reports have been taken to Overview and Scrutiny meetings, as well as annual updates, to allow delivery of the Corporate Strategy Action Plans to be monitored.

Some principles are now in place with respect to performance management and the performance monitoring framework, by virtue of the Corporate Strategies approved in September 2021. However, at the time of our follow-up review, not all the actions associated with the framework had been delivered and so a number of weaknesses persisted. Also, some of the issues we raised in our original review remained outstanding due to other work pressures:

- The Data Quality Strategy had yet to be updated and re-published;
- Awareness raising is required for all officers around data quality, with more in-depth training for those responsible for recording and maintaining data sets. This

should include the need to minimise manual intervention and ensure that data is auditable and validated; and

- There was still a need to review those KPIs which are already being recorded and monitored by business areas for continued relevance.

The external auditor's Annual Reports for 2020/21 for each Council (taken to the October/November 2021 Audit Committees) raised an improvement recommendation with regards performance management arrangements. Whilst data quality is an area that they also feel requires improvement, they did not make any further recommendations as they consider that this was being addressed through those that we raised last year.

The 2021/22 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the latest position for each audit.

The reporting of individual high priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit and Governance Committee in detail of significant findings since the last report presented in March 2022 and confirm that the agreed action has been implemented or what progress has been made. It should be noted that the management responses are as given at the time of the audit and that some actions may have been delayed due to the COVID-19 pandemic.

**Appendix C** provides a summary of work where the planned work was completed but no audit report produced.

### **LEAF & LAG Grant work**

23 days have been spent on LEAF (Greater Dartmoor Local Enterprise Action Fund) and LAG (South Devon Coastal Action Group) grant work. An allocation of 20 days had been made in the 2021/22 Audit Plan. Expenditure on these is due to finish at the end of November 2022 and 17 days has been allocated in the 2022/23 audit plan for our work in this area.

### **Non Compliance with Contract or Financial Procedure Rules**

There are no significant issues to bring to the attention of the Committee for 2021/22. Eleven applications for exemptions to Contract/ Financial Procedure Rules were received in the year, nine were accepted and two subsequently withdrawn.

### **Fraud Prevention and Detection and the National Fraud Initiative**

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single person's discounts and creditor payments. The last major upload of data to the Cabinet Office occurred in October 2020, followed by a specific upload of Single Person Discount data at the end of 2021. In both cases, lists of potential matches were received and it is recognised that some service areas have struggled to find the resource to complete the review of these data matches. Management have been made aware of the situation and efforts made to ensure this takes place.



## Irregularities

Whilst there were no irregularities to report arising from the day to day operation of the Council, there have been 16 cases (12 South Hams, 4 West Devon) which relate to COVID-19 grant applications. 12 (8 SH, 4 WD) were identified as potential frauds before any payment was made. Of the remaining four cases, two are being investigated by the National Investigation Service and the Council has been supplying information to assist in these investigations. Recovery of payments in the other two cases is taking place.

Any cases identified have been reported to Devon Audit Partnership's Counter Fraud Team and to the National Anti Fraud Network (NAFN).

## PROVISION OF INTERNAL AUDIT AND PERFORMANCE – 2021/22

There are no national performance indicators in place for internal audit; however the team monitor against local performance indicators as follows: -

Local performance indicator	2021/22		2020/21
	Target	Actual	Actual
Percentage of audit plan commenced	95%	82% *	77%
Percentage of audit plan completed	95%	78% *	70%
Actual audit days as a percentage of planned	95%	88% **	68%
Customer satisfaction (percentage of customers stating that service is "good" or "excellent")	90%	100%	100%
Draft reports issued within target days	90%	84%	81%
Average level of sickness	2%	0.25%***	0%
Outturn within budget	Yes	Yes	Yes

\* 8 out of 41 audits were either deferred to 2022/23 or not started as at 1<sup>st</sup> June 2022.

\*\* With the diversion of audit resources during the year onto COVID related activities, in particular, one of the audit team spending the whole year assisting with the processing of business rate grants, the number of days available for audit assignment was reduced. However, to counter this, a request from South Hams Audit Committee for additional audit resources was met with the provision of 50 auditor days by Devon Audit Partnership.

\*\*\* It is pleasing to report that there was only one day of sickness recorded within the internal audit team between 1st April 2021 to 31st March 2022.

#### 4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2015.

#### 5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

#### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	<p>There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.</p>
Supporting Corporate Strategy	Y	<p>This Annual Report and the work of Internal Audit supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.</p>

Climate Change – Carbon / Biodiversity Impact	Y	None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

There are no separate appendices to this report.

#### **Background Papers:**

Annual Internal Audit Plan 2021/22 as approved by Audit Committee on 8 April 2021.

## Summary of progress against agreed internal audit plan 2021/22 for **South Hams District Council** & **West Devon Borough Council**

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
					Substantial	Reasonable	Limited	No	
<b>Work Carried forward from 2020/21</b>									
Housing Benefit 20/21	■	■	■	■		■			Summary presented to Audit Committee in December 2021
Business Rates 20/21	■	■	■	■			■		Summary presented to Audit Committee in December 2021
Council Tax 20/21	■	■	■	■			■		Summary presented to Audit Committee in December 2021
ICT Audit – Access Management 20/21	■	■	■	■		■			Summary presented to Audit Committee in December 2021
COVID-19 – Business Grants – Post Scheme Assurance	■	■	■	■	■				Summary presented to Audit Committee in December 2021
Development Control – Planning Enforcement 20/21	■	■							Awaiting Management Response to draft report

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments	
					Substantial	Reasonable	Limited	No		
<b>2021/22 Plan</b>										
<b>MAIN FINANCIAL SYSTEMS</b>										
Main Accounting System (inc budgetary control)	■	✓	✓	✓		■				Final report issued. Extract provided at Appendix B.
Creditor (Payments)	■	✓								Draft report issued
Debtors (Income Collection)	■	■	■	■			■			Summary presented to Audit Committee in March 2022
Payroll	■									Fieldwork completed
Business Rates	■	✓	✓	✓			■			Final report issued. Extract provided at Appendix B.
Council Tax	■	✓	✓	✓			■			Final report issued. Extract provided at Appendix B.
Housing Benefits	✓	✓	✓	✓		■				Final report issued. Extract provided at Appendix B.
Treasury Management	■	■	■	■		■				Summary presented to Audit Committee in March 2022
<b>Main Financial Systems</b>										

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments	
					Substantial	Reasonable	Limited	No		
<b>PLACE &amp; ENTERPRISE</b>										
COVID-19 – Business Grants – Post Scheme Assurance	■	■	-	■	■					Review of Covid 19 - MHCLG Lost Sales, Fees & Charges Compensation Scheme
Estates Property & Rents Follow Up	■	■	■	■				■		Summary presented to Audit Committee in December 2021
Salcombe Harbour (S.Hams) (deferred from 2020-21)	■	✓								Draft report issued
Investment Strategy – (delegations, mgt of risk, project approach)	✓	✓								Draft report issued
Dartmouth Lower Ferry (S.Hams) (deferred from 2020-21)	■	✓								Draft report issued
<b>Place &amp; Enterprise</b>										

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
					Substantial	Reasonable	Limited	No	
<b>CUSTOMER SERVICE &amp; DELIVERY</b>									
ICT Audit – Business Continuity & Disaster Recovery	-	-	-	-	-	-	-	-	Defer in light of external consultations review
ICT Audit – Incident and Problem Management	■	■	■	■		■			Summary presented to Audit Committee in December 2021
ICT Audit – Change Management	✓	✓	✓	✓		■			Final report issued. Extract provided at Appendix B.
Locality Officers – Management, roles & scheduling	-	-	-	-	-	-	-	-	Defer to 2022-23 with agreement from Director of Governance and Assurance
Response and Recovery to COVID-19									
Building Maintenance – Works Scheduling – Follow-Up	-	-	-	-	-	-	-	-	Defer to Q1 of 22-23 to coincide with target dates for implementing agreed actions
Cash Collection & Online Payments	■	■	■	■	■				Summary presented to Audit Committee in December 2021
<b>Customer Service &amp; Delivery</b>									

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
					Substantial	Reasonable	Limited	No	
<b>GOVERNANCE &amp; ASSURANCE</b>									
Project Management – Governance and Process	-	-	-	-	-	-	-	-	Defer to 22/23 with agreement of Director of Governance and Assurance
Future IT Project	■	-	-	-	-	-	-	-	On-going work. No formal report
Contract Management – Leisure Management	-	-	-	-	-	-	-	-	Defer to 22/23 with agreement of Senior Leadership Team
Corporate Information Management (Data Protection, Filing System Housekeeping)	■								Fieldwork completed
Change Control – Business Processes	✓	✓							Draft report issued
Climate Change	■	■	■	■		■			Summary presented to Audit Committee in December 2021
Risk Management Review (deferred from 2020-21)	-	-	-	-	-	-	-	-	Defer to 22/23 with agreement of Director of Governance and Assurance



Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
					Substantial	Reasonable	Limited	No	
<b>GOVERNANCE &amp; ASSURANCE CONTD</b>									
Performance Management (Data quality) Follow Up	■	■	■	■			■		Summary presented to Audit Committee in March 2022
Election Teams									
New Payroll/HR system (Procurement, Project Mgt)	■	-	-	-	-	-	-	-	On-going monitoring of project progress. Attendance at Project Team meetings
<b>Governance &amp; Assurance</b>									

Projects agreed in the Audit Plan	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
					Substantial	Reasonable	Limited	No	
<b>OTHER ESSENTIAL ITEMS</b>									
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	■	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Internal Audit Annual Report presented to Audit Committee on 1 <sup>st</sup> July 2021
Annual Governance Statement	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to July & October 2021 Audit Committees under separate cover
Exemptions from Financial Regulations	■								
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	■	-	-	-	-	-	-	-	23 days spent on claims up to 31 March 2021  Scheme extended until 30 <sup>th</sup> November 2022
National Fraud Initiative (NFI)	■	-	-	-	-	-	-	-	
Contingency & Advice	■	-	-	-	-	-	-	-	
<b>OTHER ESSENTIAL ITEMS</b>									

## Definitions of Audit Assurance Opinion Levels

Following their analysis, CIPFA recommended the following standard assurance opinions for individual assignments which Devon Audit Partnership have adopted since 2020/21 for all its partners and clients:

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## Audit Plan 2021/22 – Final Reports

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers. In all cases (unless stated) an action plan has been agreed to address these issues.

As at 1 June 2022, 13 final reports have been issued in respect of 2021/22 work and 5 in respect of work completed from 2020/21. The conclusions from final reports issued since the last Audit Committee in March 2022, are summarised below.

Subject	Audit Findings	Management Response
<b>2021/22 Audit Plan</b>		
Main Accounting System (inc Budgetary Control)	<p><b>Audit Opinion - Substantial Assurance</b></p> <p>We were able to confirm that, in general, the setting and subsequent administration of budgets is well managed, with controls in place and operating. There are no new recommendations arising from this year's review, but we repeated the following outstanding recommendation from the previous year which is outside the control of the Finance Team:</p> <p>1. Consideration be given to amending Financial Procedure Rules to create a joint set of virement authorisation requirements for SHDC and WDBC. These could take the most pragmatic aspects of each existing set of rules, possibly being based on a combination of both value and responsible officer/committee, tempered by the practice of retrospectively reporting all virements** to members as part of the following year's budget setting process.</p> <p>** A virement is where a budget is</p>	<p>1. Agreed.</p> <p>Work has been progressing to revise the Councils' Constitutions, including a review of all authorisation levels, which have been discussed with SLT, including the Director of Strategic Finance.</p> <p>A report is to be presented to a future meeting of each Full Council, addressing the Financial Procedure Rules, including virements, amongst other items. This is currently anticipated to be the July 2022 Council.</p>

Subject	Audit Findings	Management Response
	<p>moved from one budget holder (and cost centre) to another, to better reflect where budget responsibility should be held. Virements always net to zero.</p>	
<p>Council Tax and Business Rates</p>	<p><b>Audit Opinion - Limited Assurance</b></p> <p>Whilst some of the recommendations that we made last year have been implemented, a number remain outstanding, almost entirely due to staff being required to work on the Business Support Grants. We have repeated these as a reminder, as well as raising a small number of new matters. The most significant issues include:</p> <ol style="list-style-type: none"> <li>1. Ensuring that effective use is being made of available staff resource and, importantly, that single points of failure are removed or mitigated;</li> <li>2. Procedures should be reviewed, and the resource required determined, to allow the prompt identification of new and re-purposed properties;</li> <li>3. An on-going programme of review of discounts and exemptions should be conducted, to confirm continued eligibility. For Council Tax, the Single Occupancy Discount is most significant in terms of value (approximately £6.5m for SHDC and £4.0m for WDBC in 2021/22). This discount was reviewed in 2019/20, but no reviews have been undertaken of any other discounts or exemptions. The remainder are for much lower values than the Single Occupancy Discount and several are required to be evidenced (such as those relating to Severe Mental Impairment or to Students);</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The new Head of Revenues and Benefits is expected to carry out a review of staffing requirements.</li> <li>2. Agreed. The Senior Case Manager – Revenues will be asked to review the success of new processes with the Database team.</li> </ol> <p>A new on-line form has also been created and added to the Councils' websites, that allows customers to report new builds or newly completed properties.</p> <ol style="list-style-type: none"> <li>3. Agreed. Unfortunately, there has been insufficient staff capacity to undertake reviews and to carry out day-to-day processing work. Inevitably, the latter is prioritised, to maintain levels of customer service and to avoid complaints. The new Head of Service will need to determine how they want staff resource to be utilised. It may be that officers who sit outside the Revenues team could assist in setting up a review process.</li> </ol> <p>In the meantime, the Councils are looking to engage with an external organisation to review discounts and reliefs.</p> <p>The Customer Service Improvement Manager has indicated that it should be possible to set up a process in Liberty to assist with the reviews, whereby review forms could be automatically issued on anniversary dates, as well as reminders where no response is</p>

Subject	Audit Findings	Management Response
Council Tax and Business Rates (Contd.)	<p>With regard Business Rates, the value of Small Business Rate Relief, which is normally the most significant to the Councils, is approximately £9.1m for SHDC and £3.0m for WDBC. During 2021/22 this has been more or less matched by the total value of the one-off package of Retail Reliefs temporarily awarded to businesses as part of the Government's response to the Covid pandemic (SHDC £7.8m; WDBC £3.3m), which ceased on 31 March 2022;</p> <p>4. We support the intention to make a detailed review of all aspects of recovery and enforcement and this should include consideration of those issues raised in this report, for example, taking prompt action to move on cases with a broken arrangement to pay and using enforcement agents to best effect; and</p> <p>5. An updated write off policy and associated procedures are required, to guide officers as to when it is appropriate to write off debts and so reduce the number of checks required.</p>	<p>received. The frequency of review can be tailored to each type of discount and exemption, based on the likelihood of changes occurring.</p> <p>Using Liberty would also make it easier to require customers to provide a positive response to confirm on-going eligibility, rather than just asking them to inform the Council if they have ceased to be eligible.</p> <p>Once such a process is in place, this would allow for an on-going programme of review, based on anniversary dates of awards made to individual accounts, rather than trying to free up staff resource for a big exercise to review all awards each year.</p> <p>4. Agreed. The work is still on-going and will take quite a long time to complete. The Specialist – Legal and the Senior Case Manager – Revenues are in the process of reviewing all accounts in recovery and enforcement. This is being done one recovery code at a time, with officers currently working on the 'Pend Bailiff' code.</p> <p>Existing recovery procedures include a number of cases which remain if recovery has been unsuccessful. These then require manual intervention.</p> <p>All those cases on the 'Tracing' code have been sent to the enforcement agents, although at some point these will be returned, necessitating further work based on the outcome.</p> <p>The Specialist – Legal has therefore requested temporary additional resource to speed up the process.</p>

Subject	Audit Findings	Management Response
Council Tax and Business Rates (Contd.)		<p>The new Head of Service will be tasked with reviewing processes, capacity and resources going forward.</p> <p>Existing resource and responsibilities within the Revenues team have been reconfigured. This has allowed current recovery to be kept up to date very successfully.</p> <p>5. Agreed. This is one of a suite of policies and processes to be reviewed, supported by appropriate training provided to staff.</p> <p>In the short term, the Specialist - Legal is to process the write off requests, partly to assist the Senior Case Manager – Revenues, but also because it will be useful to see the reasons for write off and the values involved, when writing a policy and procedure for the process. It will also provide an indication of the success of the revised recovery procedures.</p>
Housing Benefit	<p><b>Audit Opinion – Reasonable Assurance</b></p> <p>As last year, we have given our Audit Opinion despite there being several high priority recommendations, particularly with respect to quality checks of assessors' work and proactive recovery and enforcement. Both of these areas have suffered as a result of other work pressures placed on staff due to the Covid pandemic, although managers have endeavoured to maintain existing controls as far as possible, even if at a much reduced level. Plans are still in place to address both issues, although these link, to a large degree, to the delivery of the Revenue</p>	<p>1. Agreed. Whilst quality checks never wholly ceased, they have not been formally recorded nor as numerous as desired due to other work pressures over the last couple of years.</p> <p>A new programme of formal quality checking has been set up, with regular random checks of a sample of claims to be made by the Senior Specialist – Benefits and the Specialists – Benefits. The Senior Case Managers – Benefits are to quality check telephone calls with customers.</p>

Subject	Audit Findings	Management Response
Housing Benefit (Contd.)	<p>and Benefits service review recommendations made by the Specialist – Legal. The new Head of Service will be responsible for the implementation of the Service Review recommendations.</p> <p>There are some areas where action may be taken to further strengthen existing controls or gain efficiencies. The most important of these relate to the re-commencement of those procedures which have been suspended or reduced as a result of other work pressures created by the Covid pandemic, including:</p> <ol style="list-style-type: none"> <li>1. The re-introduction of regular quality checks of the benefit assessors work, to ensure that accuracy targets are being met;</li> <li>2. Ensuring that sufficient staff resource is available to recover overpayments on a timely basis; and</li> <li>3. Adopting alternative methods of overpayment recovery where current processes have failed, including making best use of enforcement agents, as identified by the Specialist - Benefits.</li> </ol> <p>We understand that these and a number of other recommendations made in this audit report have also been included in the Improvement Plan resulting from the Revenue and Benefits Service Review, the Plan cross-referencing to the detail within the audit reports.</p> <p>Our recommendations have been made to the new Head of Revenues and Benefits, based on the</p>	<p>A record will be kept of all checks made and any issues noted, as well as the action taken.</p> <p>If the work of an individual officer gives cause for concern, they are provided with additional training, as required, and their claims are more frequently reviewed over and above the random sample. As with the programme of quality checks, this work never wholly ceased but, more recently, it was not being formally recorded.</p> <ol style="list-style-type: none"> <li>2. Agreed. The new Head of Revenues and Benefits is expected to carry out a review of staffing requirements across the Revenues team and all the functions that it performs.</li> <li>3. Agreed. A review of HB Overpayment recovery procedures is on-going. A test case has been sent to the enforcement agents to establish the value of any assistance they can offer with respect to recovery.</li> </ol> <p>However, it is not intended to set up new, formal processes until the enforcement agent contract has been awarded. These will be reviewed in more detail with the successful tenderer.</p> <p>Arrangements for monitoring of performance are to be included in the new contract.</p>



Subject	Audit Findings	Management Response
Housing Benefit (Contd.)	expected start date of September 2022 but in the interim the Business Manager – Specialists will continue to oversee their implementation.	
ICT – Change Management	<p><b>Audit Opinion – Reasonable Assurance</b></p> <p>Since our previous audit in 2019/20, when we gave an Audit Opinion of 'Improvements Required', there have been improvements to the controls around the ICT change management process, particularly for non-standard changes. These improvements address several issues raised in our previous audit report, although a small number do remain unresolved.</p> <p>Procedures are in place to allow scrutiny, consideration of the risks, mitigations and roll back plans. Whilst they still do not wholly align to those prescribed by ITIL, they are proportionate to the size of the organisation and do appear to allow for appropriate control over any requests for change.</p> <p>However, there are opportunities to further improve controls and to create efficiencies when recording and managing requests for change. We have raised several recommendations with respect to these matters, some of which are repeated from our previous audit report. We acknowledge that most of the issues raised have not been addressed due to limited staff resource or other work priorities:</p> <ol style="list-style-type: none"> <li>1. Ensuring that business teams understand the appropriate prioritisation of upgrades to key software on which they rely to deliver their day-to-day work;</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed in principle. However, the approach to implementing system upgrades and replacements has been amended. Rather than the ICT team acting as project lead, which required their staff resource to be spent co-ordinating communications and project planning on behalf of the relevant business area and the software supplier, the emphasis has been moved to encouraging the business owner to liaise directly with the software supplier. The ICT team now act in a facilitator role, being brought in as needed, for example to co-ordinate access to the Councils' network or to provide advice. This is similar to the model already in place for Revenues and Benefits and recently used for the new HR/payroll system.</li> </ol> <p>The Head of ICT continues to remind business owners of any deadlines that may dictate when system upgrades or replacements need to be completed by, to avoid loss of service.</p> <ol style="list-style-type: none"> <li>2. Agreed. Due to the limitations of the existing service desk software, Sunrise, Requests for Change (RFCs) have to be recorded as an incident. It was the intention to categorise them as a specific type of incident to allow ready identification but this proved impractical due to how Sunrise operates. This means that it isn't possible to effectively analyse either incidents or RFCs as the two cannot be readily distinguished.</li> </ol>

Subject	Audit Findings	Management Response
ICT – Change Management (Contd.)	<ol style="list-style-type: none"> <li>2. Recording and administering all Requests for Change (RFC), both Standard and Non-Standard, within one location;</li> <li>3. Keeping the IT Maintenance and Update Schedule up to date on the intranet;</li> <li>4. Carrying out post-implementation reviews in order to formally identify and record lessons learned;</li> <li>5. Completing customer surveys to allow further areas for improvement to be identified.</li> </ol>	<p>The ability to record and administer RFCs will be a consideration of any new service desk software. Although work has commenced to consider alternative solutions, selection and implementation will be dependent on other work priorities.</p> <ol style="list-style-type: none"> <li>3. Agreed. The Schedule is to be maintained in Teams where any member of the ICT team can update it, removing the need to place reliance on a single officer with limited spare capacity. <p>A link to the Schedule will be issued regularly to all staff, for example, as part of the weekly Flash message.</p> </li> <li>4. Agreed. The requirement for a post-implementation review will be highlighted on the RFC pro forma and will be added to the standard agenda for CAB meetings to prompt discussion whenever a non-standard or emergency change has been completed.</li> <li>5. Agreed. The Senior Case Manager – Service Desk will be asked to co-ordinate a survey, to assist in identifying areas where service might be improved and how best this can be achieved.</li> </ol>

## Planned Audit 2021-22 – Work Complete (No Audit Report)

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June 2021 Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit were available to provide support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2020/21 financial year.</p> <p>The S151 Officer presented the 2020/21 AGS to the Audit Committee on 2 September &amp; 28 October 2021.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>Eleven applications for Contract / Financial Procedure Rules were received in the year, nine were accepted and two withdrawn.</p>
<b>Fraud / Irregularity</b>	<p>There have been no irregularities to report regarding the day-to-day operation of the Councils.</p> <p>However, there have been 16 cases (12 South Hams, 4 West Devon) which relate to COVID-19 business grant applications. 12 (8 SH, 4 WD) were identified as potential frauds before any payment was made. Of the remaining four cases, two are being investigated by the National Investigation Service and the Council has been supplying information to assist in these investigations. Recovery of payments in the final two cases is taking place.</p> <p>Any cases identified have been reported to Devon Audit Partnership's Counter Fraud Team and to the National Anti-Fraud Network (NAFN).</p>
<b>Covid 19 - MHCLG Lost Sales, Fees &amp; Charges Compensation Scheme</b>	<p>Internal Audit were asked to undertake review and challenge of the returns prepared by officers when claiming under the Govt scheme, the first in May 2021 and more recently, in October 2021. In both cases, Internal Audit were able to confirm the accuracy of the Government returns and provide substantial assurance on the two submissions.</p>
<b>Future IT Project and New Payroll/HR system</b>	<p>Internal Audit kept a watching brief, providing advice on system controls and project management where appropriate. This included attendance at Payroll Project Team meetings.</p>

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